

ORIGINAL

OPEN MEETING

MEMORANDUM

Arizona Corporation Commission

DOCKETED



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2015 MAR 31 P 2:12

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

MAR 31 2015

FROM: Utilities Division

DOCKETED BY

PC

DATE: March 31, 2015

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN. (DOCKET NO. E-01773A-12-0305)

SUBJECT: APPLICATION FOR THE APPROVAL OF A REVISED ALLOCATION METHODOLOGY.

On February 5, 2015, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed with the Commission an application for review and authorization, to correct what it describes as a substantial problem that has arisen with the recovery and allocation of certain costs and revenues associated with the Purchased Power and Fuel Adjustment Clause ("PPFAC"). Specifically, these concern costs and credits associated with AEPCO's sale of "Other Resources" power to its members and to non-members.

AEPCO is a non-profit electric generation cooperative that serves the power needs of its three collective all-requirements ("CARMs") and three partial-requirements ("PRMs") Class A member distribution cooperatives. Those member distribution cooperatives, in turn, use the power supplied by AEPCO to meet the electricity needs of approximately 144,000 residential, commercial, agricultural and industrial retail customers who are located primarily in Arizona's rural areas. The three CARMs are Anza Electric Cooperative ("Anza"), Duncan Valley Electric Cooperative ("Duncan Valley"), and Graham County Electric Cooperative ("Graham County"). The three PRMs are Trico Electric Cooperative ("Trico"), Sulphur Springs Valley Electric Cooperative ("SSVEC"), and Mohave Electric Cooperative ("Mohave").

Under the current structure, AEPCO's PPFAC distinguishes between and separately tracks three different categories of costs and revenues: Base Resources Energy, Other Resources Energy and Fixed Power Costs and Credits. The over- and under-collected balances for each member's usage are refunded and collected through corresponding bank balance credits and charges (*i.e.*, Base Resources Bank Charge, Other Resources Bank Charge and Fixed Power Costs Bank Charge).

Other Resources Energy tracks costs and revenues associated with AEPCO's gas-fired resources, energy purchases in lieu of generation from its gas-fired resources, and sales made to non-members from the gas-fired resources. Under the current PPFAC, the member who causes any

Other Resource to be dispatched to its load is proportionately credited with any revenues from non-member sales. Implicit in this methodology is the expectation, based on historic data and billing unit modeling, that sales of Other Resources to non-members will correspond with member usage of the Other Resources.

APECO's recent member usage of Other Resources Energy has not been robust, and market conditions have allowed non-member sales even when APECO's members schedule little or no Other Resources Energy. This lack of robustness combined with non-member sales has caused extreme and volatile per-unit PPFAC calculations and risks stranded costs and credits in months when there is no member usage of Other Resources Energy. Additionally, the current structure results in allocation among the members that is inconsistent with each member's share in APECO's total generation capacity (also known as Allocated Capacity Percentage ("ACP")).

To address this issue, APECO proposes to move the costs and credits associated with non-member sales of Other Resources into the calculation of the Base Resources Energy adjustor rate. Under this proposal, the Other Resources adjustor rate will be based solely on the costs directly assignable to member usage of Other Resources Energy. Meanwhile, the costs and revenues associated with non-member sales of Other Resources Energy will be allocated among the members based on ACP.

Background

In Decision No. 72055, the Commission authorized continuation of the PPFAC and, as well, continued APECO's ability to request modifications to the PPFAC should problems with cost recovery develop: *APECO may file a request that the Commission review the efficacy of the PPFAC with Arizona Electric Cooperatives Inc.'s submission of any semi-annual report required by the tariff and this Decision. (The Rate Case Decision, P. 17, Third Full Ordering Paragraph.)*

When the Commission first approved the "efficacy" process in APECO's 2005 rate decision (Decision No. 68071), it was concerned that PPFAC problems might arise which, for example, would interfere with the timely collection or refund of under- or over-collected fuel and purchased power bank balances. The efficacy process was authorized to allow the Commission to respond in a timely manner. Consistent with that authorization, this filing requests a review and authorization to correct a substantial problem which has arisen with the recovery of and allocation of certain costs and revenues through the PPFAC; specifically, costs and credits associated with APECO's sale of "Other Resources" power to its members and to non-members.

Staff Analysis

Staff has reviewed APECO's monthly bank balances for Other Resources. APECO currently has over-collected balances with all six of its members. APECO is concerned that these bank balances may become stranded or disproportionately credited in months when there is no member usage of Other Resources Energy. Further, the current structure results in allocation among members that is inconsistent with each member's share in APECO's total generation capacity. The bank balances as of December 31, 2014, are listed below.

Other Resources Bank Balance	
<i>Partial Requirements:</i>	
Mohave Electric	(\$425,886.37)
Sulphur Springs Valley Electric	(\$708,466.54)
Trico Electric	(\$294,956.41)
<i>Full Requirements:</i>	
Anza Electric	(\$22,886.93)
Duncan Valley Electric	(\$13,123.10)
Graham County Electric	(\$68,639.86)

AEPCO is asking to move the costs and credits associated with non-member sales of Other Resources into the calculation of the Base Resources Energy adjustor rate. This proposal would allow the Other Resources adjustor rate to be solely based on the costs directly assignable to member usage of Other Resources Energy. Meanwhile, the costs and revenues associated with non-member sales of Other Resources Energy would be allocated among the members using the ACP. The monthly Adjustor Rates and Charges are shown below.

Adjustor Rates/Charges			
		Current Rate/Charge (as of 4/1/2015)	Proposed Rate/Charge
MEC			
	Base Resources Power Cost Adjustor Rate - \$/kWh	(\$0.00174)	(\$0.00287)
	Other Resources Power Cost Adjustor Rate - \$/kWh	(\$0.05857)	(\$0.01065)
	Fixed Power Costs Adjustor Charge - Total \$/mo.	(\$33,852.39)	(\$33,852.39)
SSVEC			
	Base Resources Power Cost Adjustor Rate - \$/kWh	(\$0.00222)	(\$0.00329)
	Other Resources Power Cost Adjustor Rate - \$/kWh	(\$0.05789)	(\$0.01163)
	Fixed Power Costs Adjustor Charge - Total \$/mo.	(\$29,974.81)	(\$29,974.81)
Trico			
	Base Resources Power Cost Adjustor Rate - \$/kWh	(\$0.00306)	(\$0.00424)
	Other Resources Power Cost Adjustor Rate - \$/kWh	(\$1.36034)	(\$0.02869)
	Fixed Power Costs Adjustor Charge - Total \$/mo.	(\$19,951.93)	(\$19,951.93)
CARM's			
	Base Resources Power Cost Adjustor Rate - \$/kWh	(\$0.00211)	(\$0.00321)
	Other Resources Power Cost Adjustor Rate - \$/kWh	(\$0.00892)	(\$0.00965)
	Fixed Power Costs Adjustor Charge - Total \$/mo.	(\$10,779.51)	(\$10,779.51)

Bank Charges		
	Current Rate/Charge (as of 4/1/2015)	Proposed Rate/Charge
Mohave Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$109,628.48)	(\$122,875.64)
Other Resources Bank Charge - \$/mo.	(\$70,981.06)	(\$70,171.99)
Fixed Power Costs Bank Charge - \$/mo.	\$3,238.23	\$3,238.23
Sulphur Springs Valley Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$103,096.98)	(\$114,854.07)
Other Resources Bank Charge - \$/mo.	(\$118,077.76)	(\$114,646.45)
Fixed Power Costs Bank Charge - \$/mo.	\$2,867.65	\$2,867.65
Trico Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$83,276.41)	(\$90,927.90)
Other Resources Bank Charge - \$/mo.	(\$49,159.40)	(\$14,733.90)
Fixed Power Costs Bank Charge - \$/mo.	\$273,290.04	\$273,290.04
Anza Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$7,629.15)	(\$8,652.10)
Other Resources Bank Charge - \$/mo.	(\$3,275.30)	(\$3,721.36)
Fixed Power Costs Bank Charge - \$/mo.	\$1,893.06	\$1,893.06
Duncan Valley Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$4,173.79)	(\$4,658.03)
Other Resources Bank Charge - \$/mo.	(\$2,143.88)	(\$2,367.47)
Fixed Power Costs Bank Charge - \$/mo.	\$1,292.98	\$1,292.98
Graham County Electric Cooperative, Inc.		
Base Resources Bank Charge - \$/mo.	(\$21,837.53)	(\$24,549.06)
Other Resources Bank Charge - \$/mo.	(\$12,022.46)	(\$13,144.24)
Fixed Power Costs Bank Charge - \$/mo.	\$6,816.41	\$6,816.41

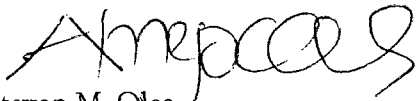
Between December 15, 2014, and February 2, 2015, AEPCO received letters of support for its Efficacy Filing from each of its Class A member distribution cooperatives: Sulphur Springs Valley Electric Cooperative, Mohave Electric Cooperative, Duncan Valley Electric Cooperative, Anza Electric Cooperative, Trico Electric Cooperative and Graham County Electric Cooperative. Please docket these.

THE COMMISSION

March 23, 2015

Page 5

Staff recommends that the Commission approve the revised allocation methodology for the Purchased Power and Fuel Adjustment Clause as submitted. Approval will ensure consistent allocation of costs and credits associated with Other Resources Energy, while additionally safeguarding against potential stranded costs associated with non-robust member usage.

for 
Steven M. Olea
Director
Utilities Division

SMO:EMV:vsc\BH

ORIGINATOR: Eric Van Epps

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 SUSAN BITTER SMITH

Chairman

3 BOB STUMP

Commissioner

4 BOB BURNS

Commissioner

5 DOUG LITTLE

Commissioner

6 TOM FORESE

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF ARIZONA ELECTRIC POWER)
10 COOPERATIVE, INC. TO DETERMINE)
11 THE FAIR VALUE OF ITS PROPERTY FOR)
12 RATEMAKING PURPOSES, TO FIX A JUST)
13 AND REASONABLE RETURN THEREON)
14 AND TO APPROVE RATES DESIGNED)
15 TO DEVELOP SUCH RETURN.)

DOCKET NO. E-01773A-12-0305

DECISION NO. _____

ORDER

14 Open Meeting
15 April 14 & 15, 2015
16 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Arizona Electric Power Cooperative, Inc. ("AEPCO") is certificated to provide electric
19 service as a public service corporation in the State of Arizona.

20 Introduction

21 2. On February 5, 2015, AEPCO filed with the Commission an application for review
22 and authorization, to correct what it describes as a substantial problem that has arisen with the
23 recovery and allocation of certain costs and revenues associated with the Purchased Power and Fuel
24 Adjustment Clause ("PPFAC"). Specifically, these concern costs and credits associated with
25 AEPCO's sale of "Other Resources" power to its members and to non-members.

26 3. AEPCO is a non-profit electric generation cooperative that serves the power needs of
27 its three collective all-requirements ("CARMs") and three partial-requirements ("PRMs") Class A
28 member distribution cooperatives. Those member distribution cooperatives, in turn, use the power

1 supplied by AEPCO to meet the electricity needs of approximately 144,000 residential, commercial,
2 agricultural and industrial retail customers who are located primarily in Arizona's rural areas. The
3 three CARMs are Anza Electric Cooperative ("Anza"), Duncan Valley Electric Cooperative ("Duncan
4 Valley"), and Graham County Electric Cooperative ("Graham County"). The three PRMs are Trico
5 Electric Cooperative ("Trico"), Sulphur Springs Valley Electric Cooperative ("SSVEC"), and Mohave
6 Electric Cooperative ("Mohave").

7 4. Under the current structure, AEPCO's PPFAC distinguishes between and separately
8 tracks three different categories of costs and revenues: Base Resources Energy, Other Resources
9 Energy and Fixed Power Costs and Credits. The over- and under-collected balances for each
10 member's usage are refunded and collected through corresponding bank balance credits and charges
11 (*i.e.*, Base Resources Bank Charge, Other Resources Bank Charge and Fixed Power Costs Bank
12 Charge).

13 5. Other Resources Energy tracks costs and revenues associated with AEPCO's gas-fired
14 resources, energy purchases in lieu of generation from its gas-fired resources, and sales made to non-
15 members from the gas-fired resources. Under the current PPFAC, the member who causes any Other
16 Resource to be dispatched to its load is proportionately credited with any revenues from non-member
17 sales. Implicit in this methodology is the expectation, based on historic data and billing unit modeling,
18 that sales of Other Resources to non-members will correspond with member usage of the Other
19 Resources.

20 6. AEPCO's recent member usage of Other Resources Energy has not been robust, and
21 market conditions have allowed non-member sales even when AEPCO's members schedule little or
22 no Other Resources Energy. This lack of robustness combined with non-member sales has caused
23 extreme and volatile per-unit PPFAC calculations and risks stranded costs and credits in months when
24 there is no member usage of Other Resources Energy. Additionally, the current structure results in
25 allocation among the members that is inconsistent with each member's share in AEPCO's total
26 generation capacity (also known as Allocated Capacity Percentage ("ACP")).

27 7. To address this issue, AEPCO proposes to move the costs and credits associated with
28 non-member sales of Other Resources into the calculation of the Base Resources Energy adjustor rate.

1 Under this proposal, the Other Resources adjustor rate will be based solely on the costs directly
2 assignable to member usage of Other Resources Energy. Meanwhile, the costs and revenues
3 associated with non-member sales of Other Resources Energy will be allocated among the members
4 based on ACP.

5 **Background**

6 8. In Decision No. 72055, the Commission authorized continuation of the PPFAC and,
7 as well, continued AEPCO's ability to request modifications to the PPFAC should problems with cost
8 recovery develop:

9 *AEPCO may file a request that the Commission review the efficacy of the PPFAC with Arizona*
10 *Electric Cooperatives Inc.'s submission of any semi-annual report required by the tariff and this*
11 *Decision. (The Rate Case Decision, P. 17, Third Full Ordering Paragraph.)*

12 9. When the Commission first approved the "efficacy" process in AEPCO's 2005 rate
13 decision (Decision No. 68071), it was concerned that PPFAC problems might arise which, for
14 example, would interfere with the timely collection or refund of under- or over-collected fuel and
15 purchased power bank balances. The efficacy process was authorized to allow the Commission to
16 respond in a timely manner. Consistent with that authorization, this filing requests a review and
17 authorization to correct a substantial problem which has arisen with the recovery of and allocation of
18 certain costs and revenues through the PPFAC; specifically, costs and credits associated with
19 AEPCO's sale of "Other Resources" power to its members and to non-members.

20 **Staff Analysis**

21 10. Staff has reviewed AEPCO's monthly bank balances for Other Resources. AEPCO
22 currently has over-collected balances with all six of its members. AEPCO is concerned that these
23 bank balances may become stranded or disprotortionately credited in months when there is no
24 member usage of Other Resources Energy. Further, the current structure results in allocation among
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12. Between December 15, 2014, and February 2, 2015, AEPCO received letters of support for its Efficacy Filing from each of its Class A member distribution cooperatives: Sulphur Springs Valley Electric Cooperative, Mohave Electric Cooperative, Duncan Valley Electric Cooperative, Anza Electric Cooperative, Trico Electric Cooperative and Graham County Electric Cooperative. Please docket these.

13. Staff has recommended that the Commission approve the revised allocation methodology for the Purchased Power and Fuel Adjustment Clause as submitted. Approval will ensure consistent allocation of costs and credits associated with Other Resources Energy, while additionally safeguarding against potential stranded costs associated with non-robust member usage.

CONCLUSIONS OF LAW

1
2 1. Arizona Electric Power Cooperative, Inc. is an Arizona public service corporation
3 within the meaning of Article XV, Section 2, of the Arizona Constitution.

4 2. The Commission has jurisdiction over Arizona Electric Power Cooperative, Inc. and
5 over the subject matter of the application.

6 3. The Commission, having reviewed the application and Staff's memorandum dated
7 March 31, 2015, concludes that it is in the public interest to approve the revised allocation
8 methodology for the Purchased Power and Fuel Adjustment Clause, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc.'s revised allocation methodology for the Purchased Power and Fuel Adjustment Clause be and hereby is approved as discussed herein, effective April 1, 2015.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. file updated tariffs consistent with the Decision in this case, within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EMV:vsc\BH

Decision No. _____

1 SERVICE LIST FOR: Arizona Electric Cooperative, Inc.
2 DOCKET NO.E-01773A-12-0305

3 Mr. Steven M. Olea
4 Director, Utilities Division
5 Arizona Corporation Commission
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7 Phoenix, Arizona 85007

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9 Chief Counsel, Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Lyn Farmer
14 Chief Administrative Law Judge,
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